

Reading somebody else's capital plan: the seven questions

Chapter 18. Ask them out loud, before anyone argues about a ratio. Each one was earned by a chapter that had to compute something first.

Bank		Prepared by	
Reporting date		Date	

#	The question	At Northbank	On this plan
1	Is the mortgage weight computed band by band or on the average loan, and what does the difference come to?	27.7483 against 25.2631 per cent: 248.5 bp, 521.9 million of risk-weighted assets	
2	When does the output floor bind, and what does it do to every requirement that is a multiple of risk-weighted assets?	2029, adding 1,468.7 million; the resolution requirement breaks the same year (case one)	
3	Which capital compartment is short, and how much common equity does the shortfall immobilise?	Additional tier 1, 40.8 million short; 13.6 bp of buffer	
4	Is the headroom to the trigger as the board reads it, or as it exists?	2.9796 as read, 2.8432 as it exists	
5	What is pledged, and is the liquidity buffer counted after encumbrance?	5,629.8 million pledged; 117.4934 per cent, not 168.8372	
6	Which stable funding reading is this, and does any defensible reading reach a hundred?	95.7941; band 94.46 to 96.10, best combination 96.53: none does	
7	Which market confidence reading, which subordination writing, which large exposure base?	83.7 million apart; one writing only; tier 1, 139.0 million over the limit	

The three answers that come back without a question of their own	Answered?	Figure
Where the three non-credit blocks sit on the standardised ladder (chapter 5)		13.99 per cent of it here
How the capital cost and the funding cost of each asset rank against each other (chapter 15)		+0.8628 in rank; 7.4 times in intensity
What the output floor does to the leverage backstop (chapter 10)		holds the density at 29.36, above the switch at 25.10

If four of the seven come back the same day, the plan has been thought about. If question seven comes back with one number where the texts permit two, the convention has not been chosen; it has been assumed.

The loan split, band by band

Chapters 3 and 4. Article 125 splits every loan at 55 per cent of the property value: 20 per cent below, the unsecured weight above. Compute it band by band, never on the average loan.

Bank		Prepared by	
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Band	Share of the book	Average loan-to-value	Share below the threshold	Weight of the band	Contribution
Northbank 1	38.00%	42.00%	100.00%	20.0000%	7.6000%
Northbank 2	27.00%	63.00%	87.30%	26.9841%	7.2857%
Northbank 3	22.00%	75.00%	73.33%	34.6667%	7.6267%
Northbank 4	10.00%	85.00%	64.71%	39.4118%	3.9412%
Northbank 5	3.00%	95.00%	57.89%	43.1579%	1.2947%
Northbank, the book	100.00%	60.82% (weighted)			27.7483%
Yours 1					
Yours 2					
Yours 3					
Yours 4					
Yours 5					
Yours, the book					

The shortcut, and its sign	Yours	Northbank
Weight computed on the average loan-to-value		25.2631%
Band by band less the average loan, basis points		248.5
The same, in risk-weighted assets		521.9 million on 21,000 million
Share of the book above the threshold; its weight band by band and on its own average loan		62%; 32.4972% and 33.1922%
The shortcut above the threshold alone, basis points (revised)		-69.5: it overstates
Share of the book whose own weight exceeds 35 per cent (the funding test, chapter 14)		13%

The weight is convex across the threshold and concave above it. The shortcut flatters only a book that straddles 55 per cent; on a book lying wholly above it, it overstates. Compute the sign, do not assume it.

The two ladders, side by side

Chapter 5. Every block on both ladders, line by line, and the two ratios that decide chapter 6 before anyone reads it.

Bank		Prepared by	
Reporting date		Date	

Block	Standardised, yours	Internal, yours	Standardised, Northbank	Internal, Northbank
Credit risk, on balance sheet			35,620.1	22,949.4
Credit risk, off balance sheet (after conversion)			2,935.0	1,629.5
Market risk			1,950.0	1,240.0
Operational risk (one approach, same on both)			3,680.0	3,680.0
Credit valuation adjustment			640.0	410.0
Risk-weighted assets			44,825.1	29,908.9

Test	Yours	Northbank
Internal models as a share of standardised		66.72 per cent
The three non-credit blocks as a share of the standardised ladder		13.99 per cent
Standardised weight of SMEs after the supporting factor (Article 501, standardised only here)		57.14 per cent
Equity weight read from the transitional schedule at the model's date		130 per cent in 2026
Mortgage weight: band by band, not typed		27.7483 per cent
Assets less liabilities (must be nought)		0

EUR million. Operational risk carries the same figure on both ladders. A parameter read from the wrong year of a transitional schedule makes the picture incoherent without making any single line look wrong.

The output floor calendar

Chapter 6. The year the floor binds is a result of the two ladders, not a fact about the calendar. Carry it into every requirement that is a multiple of risk-weighted assets.

Bank		Prepared by	
Reporting date		Date	

Year	Floor rate	Floor RWA	Additional RWA	Binds	CET1 ratio	Resolution headroom (case one)
2025	50.0%	22,412.6	0	no	13.5746%	159.1
2026	55.0%	24,653.8	0	no	13.5746%	159.1
2027	60.0%	26,895.1	0	no	13.5746%	159.1
2028	65.0%	29,136.3	0	no	13.5746%	159.1
2029	70.0%	31,377.6	1,468.7	yes	12.9392%	-262.2
2030	72.5%	32,498.2	2,589.3	yes	12.4930%	-583.7

Year	Floor rate	Floor RWA	Additional RWA	Binds	CET1 ratio	Tightest requirement

Summary	Yours	Northbank
Internal as a share of standardised		66.72 per cent
First binding year (looked up)		2029
Floor rate at which resolution breaks (authority reading)		67.96 per cent
Drop in the CET1 ratio to the last year		108 bp

EUR million. Northbank's balance sheet is held where it stands. The capital ratio absorbs the floor; the resolution requirement, another multiple of the same risk-weighted assets, does not.

The three compartments

Chapter 7. Each compartment has its own requirement, built from Pillar 1 and the Pillar 2 split. A surplus in one does not fill a hole in another.

Bank		Prepared by	
Reporting date		Date	

Pillar 2 split	Yours	Northbank
Pillar 2 requirement		2.00%
of which common equity (56.25 per cent)		1.125%
of which additional tier 1 (75 less 56.25)		0.375%
of which tier 2 (25 per cent, defined, not a residual)		0.500%
The three less the requirement (must be nought)		0

Compartment	Rate required	Required	Held	Short	Long
Common equity tier 1 (Northbank)	5.625%	1,682.4	4,060.0	0	2,377.6
Additional tier 1 (Northbank)	1.875%	560.8	520.0	40.8	0
Tier 2 (Northbank)	2.500%	747.7	910.0	0	162.3
Common equity tier 1 (yours)					
Additional tier 1 (yours)					
Tier 2 (yours)					

Consequence	Yours	Northbank
Common equity immobilised plugging the other two		40.8 million
As a share of risk-weighted assets		13.64 bp
Additional tier 1 that would close it		560.8 million held, not 520.0

EUR million. The tier 1 requirement of six per cent cannot be reached with tier 2, so the hole is plugged with common equity, which then stops counting for the buffer.

The countercyclical buffer, country by country

Chapter 8. Weighted by own funds requirements for credit risk, not by exposure. One national decision taken abroad moves the trigger, both headrooms and the resolution requirement.

Bank		Prepared by	
Reporting date		Date	

Country	Share, Northbank	Rate	Contribution	Share, yours	Rate	Contribution
France	46%	1.00%	0.4600%			
Germany	21%	0.75%	0.1575%			
Netherlands	12%	2.00%	0.2400%			
Belgium	9%	1.25%	0.1125%			
Rest of the Union	8%	0.00%	0			
Outside the Union	4%	0.00%	0			
Institution-specific rate	100%		0.9700%			

The stack	Yours	Northbank
Capital conservation buffer		2.50%
Countercyclical buffer, weighted		0.97%
Systemic institution buffer		1.00%
Sectoral systemic risk buffer		0.50%
Combined buffer requirement		4.97%; 1,486.5 million
A full release frees (case two): distributions / resolution, authority / literal		290.1 / 580.2 / 290.1 million

The countercyclical buffer is the one both readings of the market confidence charge treat differently: they agree only when it is exactly 125 basis points.

The distribution trigger, and the two headrooms

Chapter 9. The board paper line, written the way it exists. The fourth quartile boundary is the trigger itself: below it nothing is breached, the bank simply stops being free to pay.

Bank		Prepared by	
Reporting date		Date	

Line	Yours	Northbank, per cent	Northbank, million
Common equity tier 1 ratio		13.5746	4,060.0
Distribution trigger (5.625 + 4.97)		10.5950	3,168.8
Headroom as the board reads it		2.9796	891.2
Less: equity immobilised by the additional tier 1 shortfall		0.1364	40.8
Headroom as it exists		2.8432	850.4
Headroom above supervisory guidance (1.25)		1.7296	517.3

Quartile	Share of buffer covered	CET1 ratio at the boundary	In euros	Maximum distributable	Yours: CET1 at boundary
1	25%	6.8675%	2,054.0	20%	
2	50%	8.1100%	2,425.6	40%	
3	75%	9.3525%	2,797.2	60%	
4	100%	10.5950%	3,168.8	100%	

Coverage	Yours	Northbank
Coverage of the combined buffer, after the immobilised equity		1.5721: full distribution

EUR million. Two headrooms, 13.6 basis points apart, both from the same balance sheet. The board reads the first; the second decides whether the dividend can be paid.

Leverage, and when the backstop would take over

Chapter 10. A backstop binds only below a density. Compute the density, the switch, and what the output floor does to the distance between them.

Bank		Prepared by	
Reporting date		Date	

Line	Yours	Northbank
On balance sheet exposures		80,240.0
Off balance sheet, after conversion		3,730.0
Exposure measure		83,970.0
Tier 1		4,580.0
Leverage ratio; requirement		5.4543%; 3.00%
Density: risk-weighted assets over the measure		35.6185%
Switch: (CET1 / trigger) over (tier 1 / 3 per cent)		25.1004%
Distance, basis points		1,051.8

What the floor does (revised)	Yours	Northbank
Lowest density lower internal weights can reach, at the model's date		29.3603%
Can lower internal weights alone reach the switch?		No
Zero-weighted exposure that would reach it, today		35,186.9
The same at the terminal floor rate		45,502.8

EUR million. The first edition said that taking the internal weights down would swap the two constraints. The floor prevents it: the backstop takes over only if the exposure measure grows without risk-weighted assets.

The liquidity buffer, after encumbrance

Chapters 11 and 12. What is pledged is not eligible. Show the buffer before and after, the order in which the pledge is imputed, and the caps even when they do not bind.

Bank		Prepared by	
Reporting date		Date	

Line	Yours	Northbank
Portfolio after haircuts, as treasury reports it		18,513.0
Secured funding under six months; share against own inventory		14,260.0; 37.6%
Securities pledged at 105 for 100		5,629.8, all sovereigns
Level 1: reserves and free sovereigns		8,970.2
Level 1b: free covered bonds after haircut (cap 20,930.4)		1,953.0
Level 2A: corporate bonds after haircut (cap on level 2: 7,282.1)		1,360.0
Level 2B: equities after haircut (cap 1,927.6)		600.0
Buffer, unencumbered		12,883.2

Thirty days	Yours	Northbank
Gross outflows: funding / off balance sheet / other		13,390.0 / 925.0 / 850.0
Inflows, against a cap of 75 per cent of outflows		4,200.0 (cap 11,373.8)
Net outflows		10,965.0
Liquidity coverage ratio, after encumbrance		117.4934%
The same, if the pledge were forgotten		168.8372%
Headroom, points		17.49

EUR million. The margin of five per cent increases the securities that leave the buffer; it is not a haircut. The imputation order is a convention: write it down.

Stable funding, and the band of readings

Chapters 13 and 14. One ratio, argued six ways and a seventh. The band is the honest statement; a single figure inside it is not.

Bank		Prepared by	
Reporting date		Date	

Line	Yours	Northbank
Available stable funding		44,550.0
Required stable funding, on and off balance sheet		45,941.0 + 565.0
Net stable funding ratio; shortfall		95.7941%; 1,956.0

Variation, each taken alone	Change in required	Change in available	Ratio, Northbank	Yours
Cancellable lines at nought (Article 428p)	-150.0	0	96.10%	
Guarantees at nought	-55.0	0	95.91%	
One billion of mortgages inside a year at 50	-150.0	0	96.10%	
Unsecured interbank at 15 (Basel)	+90.0	0	95.61%	
Repo assets at 15	+118.0	0	95.55%	
Operational deposits at 40, strictly	0	-620.0	94.46%	

Together, and the seventh reading	Yours	Northbank
The three that help, together (revised)		96.53%; 1,601.0 short
All six together (revised)		94.76%
Mortgages exposure by exposure: 13 per cent at 85, factor 67.6		94.68%; +546.0 required

EUR million. Switching everything on is not the most favourable reading: three of the six lower the ratio. No defensible reading reaches a hundred.

The two costs of each asset

Chapter 15. Common equity per euro against stable funding per euro. They agree about the order and disagree about the amount.

Bank		Prepared by	
Reporting date		Date	

Asset	Internal weight	Capital per euro	Funding per euro	Funding per unit of capital	Yours
Covered bonds, AAA	7.5%	0.79%	7%	8.81	
Corporate bonds, AA- and above	15.2%	1.61%	50%	31.05	
Interbank, three months or less	14.5%	1.54%	10%	6.51	
Rated large corporates	40%	4.24%	85%	20.06	
SMEs	45%	4.77%	85%	17.83	
Residential mortgages	13.5%	1.43%	65%	45.44	
Other retail lending	43%	4.56%	85%	18.66	
Commercial real estate	65%	6.89%	85%	12.34	
Defaulted exposures	100%	10.60%	100%	9.44	
Listed equities	130%	13.77%	85%	6.17	
Securities financing	15.2%	1.61%	10%	6.21	
Derivatives	15.2%	1.61%	10%	6.21	
Other assets	100%	10.60%	100%	9.44	

Summary	Yours	Northbank
Rank correlation between the two costs		+0.8628
Highest over lowest ratio		45.44 / 6.17 = 7.36
Mortgage against corporate loan; the same under the terminal floor		2.27; 2.07

Capital per euro is the internal weight times the distribution trigger, 10.595 per cent. The mortgage is second-lightest in capital and heaviest in funding per unit of capital.

The convention register

Chapters 16 and 17. Where two correct calculations diverge you write down the convention; you do not pick a number. One line for each place the texts permit two readings.

Bank		Prepared by	
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Convention	Reading one	Reading two	Northbank, apart	Ours, and where it is written
Market confidence charge	Combined buffer less 125 bp: 3.72%	Less the countercyclical buffer: 4.00%	83.7 million; 52.6% of the headroom	
Subordinated requirement	Buffer added to the requirement	Buffer deducted from resources	Nought: both give 1,315.8	
Never both at once		Double count: -170.6	Misstates by 1,486.5	
Senior preferred debt	Eligible for the external requirement	Excluded	Headroom 159.1 or shortfall 1,740.9	
Large exposure base	Tier 1: 139.0 over the limit	Total own funds: 88.5 under	227.5 million	
Mortgage funding factor	Portfolio weight 27.75: 65%	Exposure by exposure: 67.6%	546.0 million required	
Encumbrance imputation	Sovereigns first	Any other order	Level 1 falls by the full 5,629.8	
Stable funding variations	Each alone: 94.46 to 96.10	Together: 94.76 to 96.53	No reading reaches 100	

EUR million unless stated. A figure in a board paper is complete only when the convention it was computed on is named beside it.

The constraint that actually binds: one page for the board

Chapter 18 and the appendix. Every constraint on one page, in euros of headroom, so that the one in breach and the one that breaks next are both visible.

Bank		Prepared by	
Reporting date		Date	

Constraint	Requirement	Northbank	Headroom, million	Yours: headroom
Common equity, to the distribution trigger	10.595%	13.5746%	850.4 (as it exists)	
Additional tier 1 compartment	1.875%	1.7386%	-40.8	
Tier 2 compartment	2.500%	3.0426%	+162.3 (unusable above)	
Leverage ratio	3.00%	5.4543%	2,060.9	
Liquidity coverage ratio	100%	117.4934%	1,918.2	
Net stable funding ratio	100%	95.7941%	-1,956.0	
Resolution requirement, authority / literal	8,580.9 / 8,664.6	8,740.0	159.1 / 75.4	
Subordinated requirement	5,524.2	6,840.0	1,315.8	
Large exposure, tier 1 base	1,145.0	1,284.0	-139.0	

The running order	Done
1. Every requirement in euros of headroom, on the reading written in the convention register	
2. The constraints in breach: stable funding, the large exposure, the additional tier 1 compartment	
3. The one that breaks next and when: the resolution requirement, in 2029, under the floor	
4. Only then a remedy, priced on every constraint and not only the one it fixes (case three)	

Three ratios pass. The stable funding ratio is in breach by 1,956.0 million, and the resolution requirement, which passes today with the least room, is the one the floor reaches first.